MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2015/2016

BBF3084 – GLOBAL FINANCE

(All sections/Groups)

12 OCTOBER 2015
2.30 p.m. – 4.30 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 4 pages with 2 Sections only.

2. Section A: Answer **ALL** case questions.
   Section B: Answer any **THREE (3)** out of the FOUR (4) essay and calculation questions.

3. The distribution of the marks for each question is given at the end of each question.

4. Please write your answers in the Answer Booklet provided.

SECTION A: CASE QUESTIONS (40 MARKS)
INSTRUCTION: ANSWER ALL QUESTIONS

Sony to Raise $3.6 Billion Selling Stock, Convertible Bonds

Pavel Alpeye and Grace Huang
June 30, 2015

Chief Executive Officer Kazuo Hirai is focusing on image sensors, games and entertainment to revive growth at Sony, which is projecting its first annual profit in three years.

Sony Corp. plans to raise about 440 billion yen ($3.6 billion) in a sale of shares and convertible bonds to help finance an increase in production of image sensors used in smartphones. Stock will make up 321.5 billion yen of the transaction while convertible bonds account – *foreign bond* and *eurobond* for 120 billion yen.

Chief Executive Officer Kazuo Hirai is focusing on image sensors, games and entertainment to revive growth at Sony, which is projecting its first annual profit in three years. The company has said it's quadrupling investment in semiconductors to 290 billion yen this year to tap surging demand for the sensors used in Apple Inc. and Samsung Electronics Co. smartphones.

"The amount they are raising doesn't correspond to the kind of growth we see in image sensors," said Yasuaki Kogure, chief investment officer at SBI Asset Management Co. "This is pretty negative, and the share selloff shows a mismatch with market expectations."

Sony's net cash, or cash minus debt, stood at 1.4 trillion yen as of March 31, compared with 826 billion yen in the previous quarter and 500 billion yen a year earlier.

"We have gone through a restructuring phase and are now entering into an investment stage," the company's spokesman Yasuhiro Okada said. The proceeds will be used to increase output capacity in the chip business, he said.

The company will use 25 billion yen in proceeds from the convertible bond sale to repay debt, it said.

The share and convertible bond sales amount to about 10 percent of the company's current market value of about 4.1 trillion yen, according to data compiled by Bloomberg.

Advisers for the sale are JPMorgan Chase & Co., Morgan Stanley and Nomura Holdings Inc.

Adapted from Bloomberg Business. Retrieved from http://www.bloomberg.com/news/articles/2015-06-30/sony-to-raise-about-440-billion-yen-in-sales-of-shares-cbs

Continued...

QUESTION 1

As a financial advisor, why would you persuade Sony to sell its shares on a foreign stock exchange, e.g. New York Stock Exchange. Discuss four (4) reasons. (20 marks)

QUESTION 2

Recommend whether the optimal financial structure of Sony needs to be adjusted following the sale of shares and convertible bonds in the international financial market. Justify your response with two (2) reasons. (10 marks)

QUESTION 3

Distinguish between Eurobond and foreign bond in this passage with example. (10 marks)

(Total: 40 marks)

Continued...

SECTION B: ESSAY AND CALCULATION QUESTIONS (60 MARKS)
INSTRUCTION: ANSWER ANY THREE (3) QUESTIONS

QUESTION 1

a. Despite the underlying advantages of the Theory of Comparative Advantage, countries do not appear to specialize in producing only those goods and services that could most efficiently be produced domestically. Provide three (3) reasons why governments interfere with comparative advantage. (9 marks)

b. Based on Question 1(a), discuss two (2) techniques they may use to enforce their objectives. (6 marks)

c. Suppose the spot ask exchange rate, $S^a(\$|£)$, is \$2.10 = £1.00 and the spot bid exchange rate, $S^b(\$|£)$, is \$2.07= £1.00. If you were to buy \$5,000,000 worth of British pounds and then sell them five minutes later without the bid or ask changing, how much of your \$5,000,000 would be "eaten" by the bid-ask spread? (5 marks)

(Total: 20 marks)

QUESTION 2

a. Assume the following information. You have \$1,000,000 to invest.
Current sport rate of pound = \$1.57
90-day forward rate of pound = \$1.60
3-month deposit rate in U.S. = 3%
3-month deposit rate in U.K. = 4%

If you use covered interest arbitrage (CIA) for a 90-day investment, what will be the amount of U.S. dollars you will have after 90 days? (10 marks)

b. The inflation level in Romania is 4.8%, while it is 9.8% in Bulgaria today. The inflation rate in both countries is expected to grow 4.8% and 9.8% respectively for the next five years. Calculate the expected value of Romanian Leus in the fifth year. Suppose 1 Bulgarian Lev= 2.18 Romanian Leus. (6 marks)

c. According to one investment advisor, "I feel more comfortable investing in Western Europe or Canada. I would not invest in other regions with a record of debt defaults and restructuring". Comment on this statement. (4 marks)

(Total: 20 marks)

Continued...

QUESTION 3

a. The Dollar to Swiss Franc spot exchange rate is \$0.8918/SF1.00, the Dollar to Pound spot exchange rate is \$1.6302/£1.00, and the SF to Pound spot exchange rate is SF1.7914/£1.00. Determine the triangular arbitrage profit that is possible if you have \$8,000,000. (10 marks)

b. Cite two (2) major reasons why multinational corporations may be riskier than companies that operate on the domestic market only. Explain briefly. (10 marks)

(Total: 20 marks)

QUESTION 4

U.S. deposit rate for 1 year = 11%
U.S. borrowing rate for 1 year = 12%
New Zealand deposit rate for 1 year = 8%
New Zealand borrowing rate for 1 year = 10%
New Zealand dollar forward rate for 1 year = \$0.37
New Zealand dollar spot rate = \$0.39

Also assume that a U.S. exporter denominates its New Zealand exports in NZ\$ and expects to receive NZ\$600,000 in 1 year.

a. Using the information above, what will be the approximate value of these exports in 1 year in U.S. dollars given that the firm executes a money market hedge? (12 marks)

b. Using the information provided, what will be the approximate value of these exports in 1 year in U.S. dollars given that the firm executes a forward hedge? (4 marks)

c. Based on your answers in Question 4(a) and 4(b), what is the difference (in U.S dollar) between the two methods? Which method is more preferable? (4 marks)

(Total: 20 marks)

End of Page